

MEMORANDUM

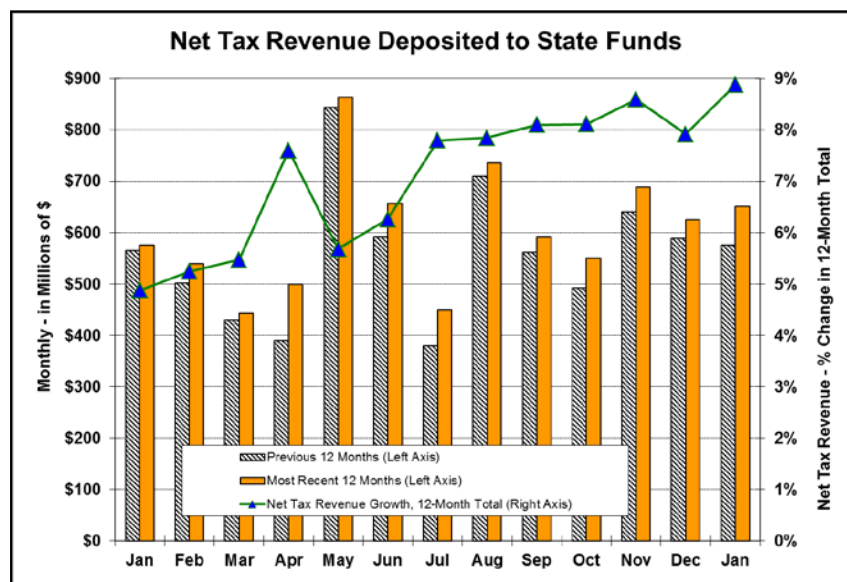
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson
Shawn Snyder

DATE: February 22, 2013

Twelve-month Total Net Tax Receipts Through January 31, 2013

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending January 2013 with comparisons to the previous twelve months. January 2012 to January 2013 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Overview of Current Situation

January net receipts grew 13.1% and this is due almost entirely to issues related to payments and refunds associated with the filing of tax year 2012 individual income tax returns. Individual income tax accounted for more than 100.0% of the month's gain, as net corporate tax deposits declined \$31.7 million in January. At 8.9%, the annual net tax revenue growth rate is now higher than any time since April 2008 (9.2%).

Month of January Comparison

January net tax receipts totaled \$651.4 million, an increase of \$75.7 million (13.1%) compared to January 2012. Major taxes and their contribution to the month's change include:

- Individual Income Tax (positive \$93.9 million, 30.4%) – Gross income tax deposits increased \$74.4 million in January while individual income tax refunds issued decreased \$19.5 million. January 2013 income tax transactions were heavily influenced by the timing of the federal debate concerning income tax rate changes. The U.S. Congress enacted significant changes January 1, 2013. It is possible that the uncertainty surrounding that legislation caused taxpayers to remit larger income tax estimate payments than normal. The uncertainty also caused federal tax return filing to be delayed, and this in turn delayed State filings. As a consequence, very few individual income tax refunds were issued in January 2013 compared to a normal year.
- Sales/Use Tax (positive \$6.1 million, 4.3%)
 - Road Use Tax Fund use tax (fee for new vehicle registration) decreased \$0.6 million.
 - Gross General Fund sales/use tax receipts increased \$6.6 million (4.3%). Regular sales tax refunds decreased \$0.3 million. School infrastructure transfers out increased \$0.1 million in January.
- Corporate Income Tax (negative \$31.7 million, - 89.8%) – Deposits of corporate income tax receipts decreased \$21.2 million in January, while corporate tax refunds increased \$10.5 million.
- Fuel Tax (negative \$2.2 million, - 5.9%) – Gross fuel tax deposits decreased \$4.3 million for the month while tax refunds decreased \$2.1 million.
- Cigarette and Tobacco Taxes (positive \$3.2 million, 23.5%) – Cigarette wholesalers purchase cigarette stamps and remit the tax in large periodic transactions and the out-sized increase in January was likely just an issue of timing.
- Gambling Tax (positive \$1.9 million, 7.8%)

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending January 2013, net revenue from all taxes deposited to State funds totaled \$7.296 billion, an increase of \$594.6 million (8.9%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$316.5 million, 10.9%) – Individual income tax continues to post good year-over-year annual growth. The month of January 2013 contributed significantly to the annual growth rate through a large increase in estimate payment deposits and a significant decrease in refunds issued.
- Sales/Use Tax (positive \$127.0 million, 5.6%) – Sales tax receipts continue to post very good gains, both for the General Fund and for the Road Use Tax Fund (vehicle sales).
- Corporate Income Tax (positive \$118.8 million, 37.2%) – Corporate income tax revenue has shown significant strength over the past 18 months, but the last two months posted negative results.
- Fuel Tax (negative \$2.4 million, - 0.5%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold

decreased 4.0% while taxable diesel sales decreased 0.3%. Taxable total gallons have now decreased 13 of the past 15 months when compared to the same month the prior year. Taxable diesel sales over the most recent 12-month period are 4.1% lower than the March 2008 peak diesel sales level. Total taxable fuel gallons (gasoline/ethanol/diesel) have dipped below the prerecession peak (August 2007) for all taxable gallons sold.

- Gambling Tax (positive \$9.8 million, 3.4%) – According to Racing and Gaming Commission statistics, nine of Iowa's 18 casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12-month period ending January 2013. The combined AGR growth for the 18 facilities was positive 1.9% over the previous 12-month period, with the new Lyon County casino (opened June 2011) contributing 74.0% of the AGR growth. Across all facilities, the AGR for the most recent 12 months totaled \$1.459 billion.
- Real Estate Transfer Tax (positive \$4.9 million, 34.3%) – Annual real estate transfer tax receipts peaked in June 2006 at \$19.2 million and bottomed in May 2010 at \$12.8 million. Receipts are now 0.4% below the June 2006 peak.
- Cigarette and Tobacco Tax (positive \$4.0 million, 1.8%)

Tax Spotlight – Inheritance Tax

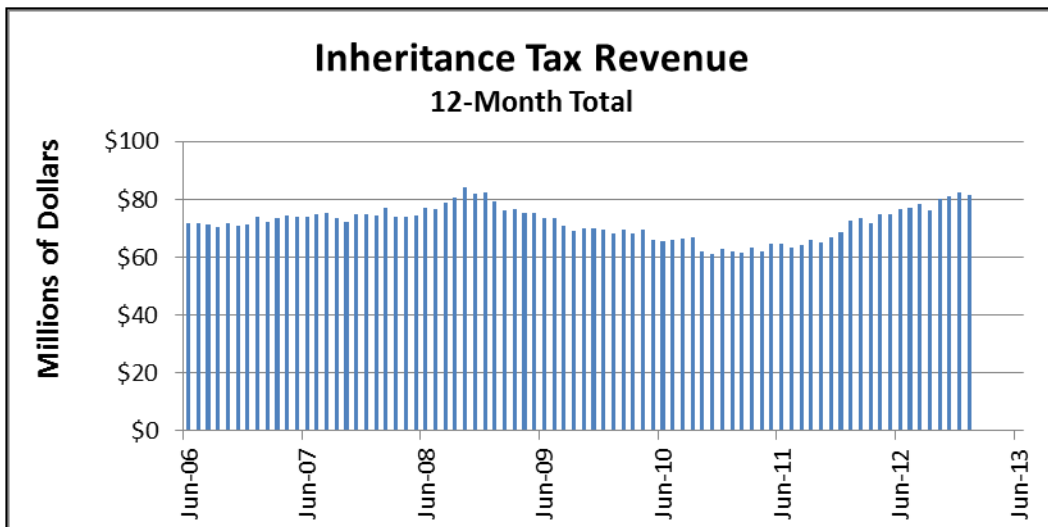
The category of inheritance tax includes an inheritance tax, the qualified use inheritance tax, and the generation skipping transfer tax.

The inheritance tax is imposed under the authority of [Iowa Code Chapter 450](#). Tax rates range from 5.0% to 15.0% depending on the amount of inheritance and the relationship of the beneficiary to the decedent. To be subject to the tax the estate must exceed \$25,000 in value. Spouses were exempted fully from inheritance tax with the passage of SF 356 (Department of Revenue and Finance Tax Administration Act of 1991). Senate File 35 (Inheritance Tax Act of 1997) expanded the exemption to include all lineal ascendants and decedents.

The Iowa generation skipping transfer tax ([Iowa Code Chapter 450A](#)) is equal to the federal tax credit allowable for the State taxes paid. Currently the federal generation skipping transfer tax credit does not apply to estates so the State will not receive any revenue from the tax until the federal situation changes.

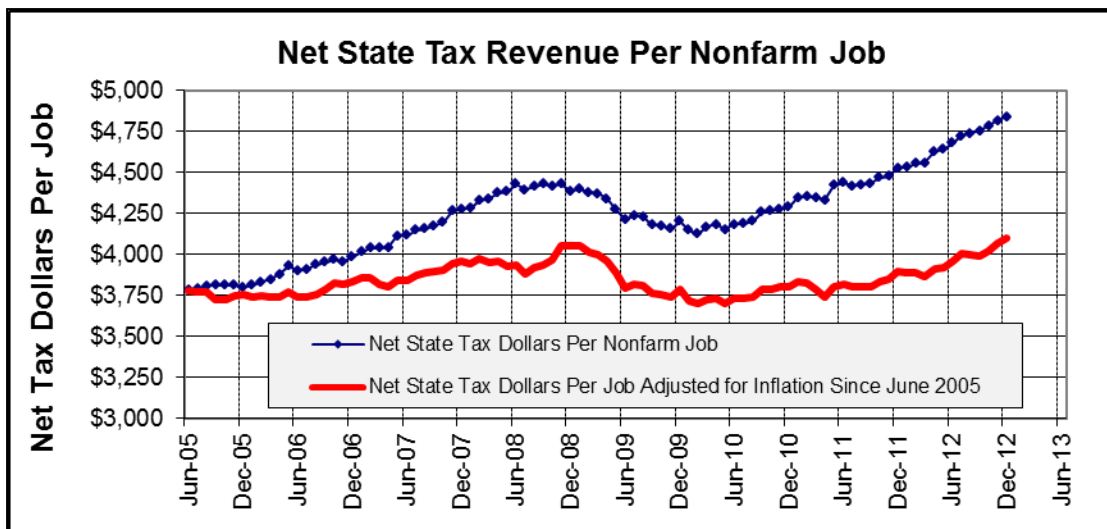
The qualified use inheritance tax is imposed under the authority of [Iowa Code Chapter 450B](#). A qualifying heir for federal tax purposes may forego inheritance tax on property used in farming or business if they maintain the business for up to 10 years. However, if the farm or business is sold to a non-relative prior to the 10 years, the heir may be required to pay inheritance tax.

The Iowa estate tax ([Iowa Code Chapter 451](#)) is equal to the federal tax credit allowable for State estate taxes paid. However, the federal law does not currently allow for a federal estate tax credit so [Iowa Code Chapter 451](#) is inoperative and Iowa does not collect estate tax.



Tax Revenue and Employment

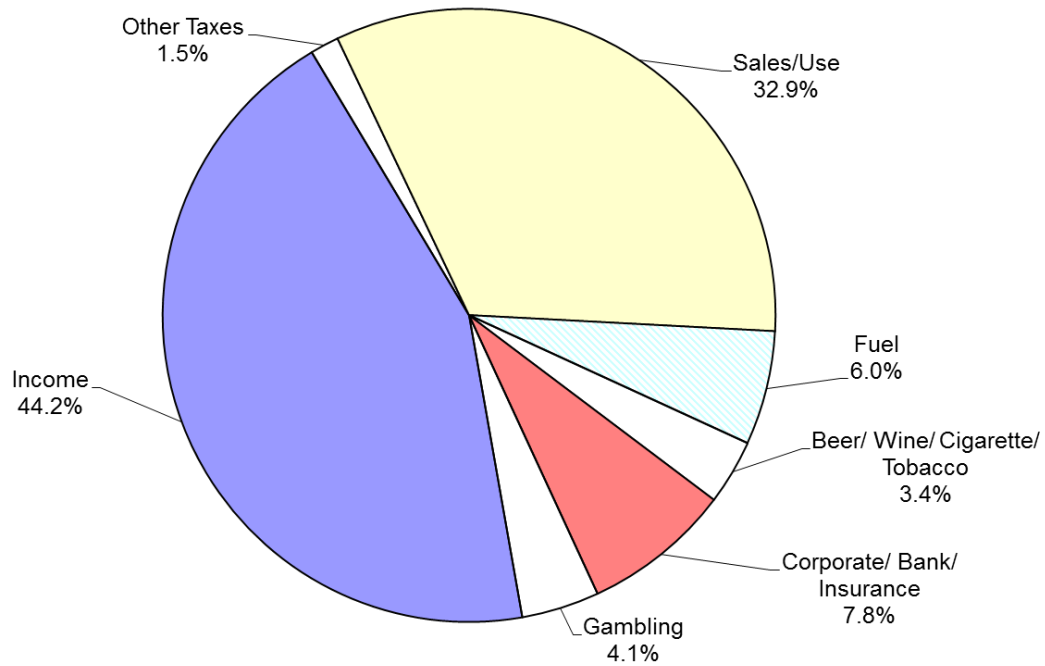
The average reading for Iowa nonfarm employment over the 12 months ending December 2012 is 1,492,500 and net State tax receipts over the same 12 months totaled \$7.221 billion, or \$4,838 per nonfarm job. This is \$1,053 (27.8%) higher than the per-job average for the 12 months ending June 2005. The blue line on the following chart depicts the annual tax revenue collected by the State per job, calculated monthly. The red line on the graph adjusts the June 2005 net tax revenue per job for inflation, and indicates inflation-adjusted tax revenue per job has increase since June 2005 by \$347 and the remainder of the \$1,053 increase represents the impact of inflation.



Net State Tax Revenue - Twelve Months Ending January 2013

Net Revenue = \$7.296 Billion

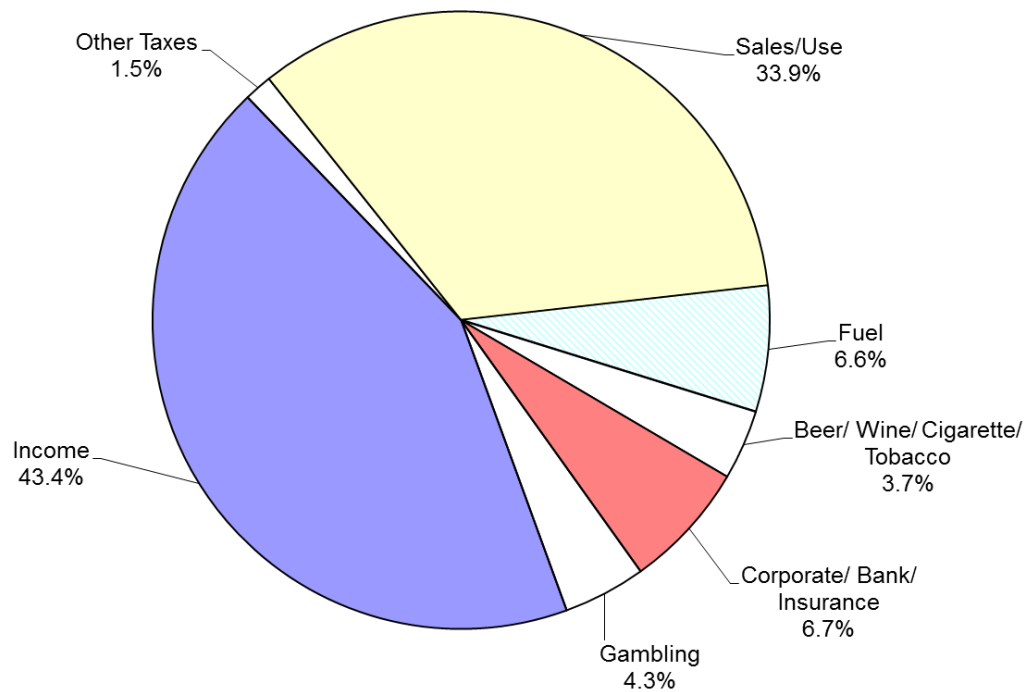
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending January 2012

Net Revenue = \$6.702 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of January 2011	Month of January 2012	January \$ Change	January % Change
Banking	\$ 32.6	\$ 31.8	\$ - 0.8	-2.5%	\$ 2.8	\$ 5.7	\$ 2.9	103.6%
Beer & Wine	21.5	22.0	0.5	2.3%	2.0	1.9	- 0.1	-5.0%
Cigarette & Tobacco	223.9	227.9	4.0	1.8%	13.6	16.8	3.2	23.5%
Corporate Income	319.4	438.2	118.8	37.2%	35.3	3.6	- 31.7	-89.8%
Fuel	441.2	438.8	- 2.4	-0.5%	37.0	34.8	- 2.2	-5.9%
Gambling	289.9	299.7	9.8	3.4%	24.5	26.4	1.9	7.8%
Individual Income	2,908.1	3,224.6	316.5	10.9%	308.5	402.4	93.9	30.4%
Inheritance	72.7	81.9	9.2	12.7%	7.8	7.3	- 0.5	-6.4%
Insurance	94.3	102.1	7.8	8.3%	0.1	0.1	0.0	0.0%
Other Taxes	10.4	9.7	- 0.7	-6.7%	- 0.2	0.2	0.4	--
Real Estate Transfer	14.3	19.2	4.9	34.3%	1.5	3.3	1.8	120.0%
Sales/Use	2,273.3	2,400.3	127.0	5.6%	142.8	148.9	6.1	4.3%
Total Net Taxes	\$ 6,701.6	\$ 7,296.2	\$ 594.6	8.9%	\$ 575.7	\$ 651.4	\$ 75.7	13.1%
Gross Tax & Refunds								
Gross Tax	\$ 8,007.1	\$ 8,542.6	\$ 535.5	6.7%	\$ 647.9	\$ 710.9	\$ 63.0	9.7%
Tax Refunds	\$ - 1,305.4	\$ - 1,246.2	\$ 59.2	-4.5%	\$ - 72.2	\$ - 59.5	\$ 12.7	-17.6%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,616.7	\$ 6,155.3	\$ 538.6	9.6%	\$ 509.7	\$ 564.7	\$ 55.0	10.8%
Road Use Tax Fund	\$ 736.7	\$ 754.0	\$ 17.3	2.3%	\$ 61.0	\$ 58.3	\$ - 2.7	-4.4%
Non-GF Gambling	\$ 216.9	\$ 256.9	\$ 40.0	18.4%	\$ 4.3	\$ 26.5	\$ 22.2	516.3%
Other State Funds	\$ 131.4	\$ 130.2	\$ - 1.2	-0.9%	\$ 0.6	\$ 2.0	\$ 1.4	233.3%
Local Option Taxes *	\$ 843.3	\$ 861.6	\$ 18.3	2.2%	\$ 60.0	\$ 58.9	\$ - 1.1	-1.8%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

A percentage change displayed as "--" represents instances where the base year net revenue amount was zero or negative so no meaningful percentage change can be calculated.

Tax Categories Used in Table

Franchise (Bank) Tax: The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is included in this line also. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in an Iowa Economic Development Authority fund for wine promotion.

Cigarette & Tobacco Tax: Prior to July 1, 2011, all cigarette and tobacco products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bonds Subsidy Holdback Fund, and the Revenue Bonds Debt Service Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The distribution of State portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% by FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.